

**WARWICK TOWNSHIP WATER
AND SEWER AUTHORITY**

**COMPONENT UNIT OF THE
TOWNSHIP OF WARWICK**

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
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DECEMBER 31, 2018 AND 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Warwick Township Water and Sewer Authority

We have audited the accompanying financial statements of the business-type activities of Warwick Township Water and Sewer Authority (the Authority), a Component Unit of the Township of Warwick, Pennsylvania, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Warwick Township Water and Sewer Authority, Component Unit of the Township of Warwick, Pennsylvania, as of December 31, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 28 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The Schedules of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Statements of Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statements of Operating Expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.



Brinker Simpson & Company, LLC
Springfield, Pennsylvania
April 22, 2019

Warwick Township Water & Sewer Authority
Component Unit of the Township of Warwick
Management's Discussion and Analysis
December 31, 2018 and 2017

This section of Warwick Township Water & Sewer Authority's, hereafter referred to as "Authority" annual financial report presents management's analysis of the Authority's financial condition for the years ended December 31, 2018 and 2017.

Financial Highlights

- A rate schedule projected to satisfy the Rate Covenant of the 2012 Bond Indenture and future capital reserve requirements was adopted on November 18, 2013 and was effective January 1, 2014. The Authority periodically reviews the annual budget and rate structure to meet the terms of the covenant and address financial planning for the Authority. There was no Water and Sewer rate increase for 2018.
- For fiscal year 2018, the Authority delivered 245.5 million gallons of water and treated 375.0 million gallons of wastewater, compared to 249.3 million gallons of water and 311.0 million gallons of wastewater in the previous year. The Authority purchased 260.7 million gallons of water in 2018, which represented a daily average of 714,190 gallons, while 2017 purchases totaled 288.8 million gallons, an average of 791,233 gallons per day. Unaccounted for water decreased to 5.82% in 2018 from 13.71% in 2017 mainly due to two major water main breaks in 2017.
- Total assets at year-end were \$42 million and exceeded liabilities in the amount of \$35 million (i.e. net position). Both, assets and net position, remained roughly unchanged from 2017 to 2018. Deferred outflows of resources were \$165,554 in 2018 compared to \$175,292 in 2017.
- Operating revenues decreased by .69% from \$3,497,487 in 2017 to \$3,473,339 in 2018, and were under budget projections by \$54,161. While water revenues by existing customers increased from 2017 to 2018 by approximately .43%, sewer revenues decreased by .83%. Non-operating revenue increased over 2017 by \$17,525 primarily due to recording the Warwick Mill Development tapping fees.
- Operating expenses before depreciation for 2018 were \$2,799,528 and were \$165,974 under the budget projection. Operating expenses decreased \$110,266 or 3.79%, from the previous calendar year. Operating expenses including depreciation and amortization, decreased \$50,520 from 2017.
- The operating income before depreciation for the year totaled \$673,811. Operating income before depreciation increased from 2018 by \$86,118 or 14.65%.
- There was \$909,331 of developer contributions of infrastructure for 2018. These contributions are comprised of the PennDOT Route 263 Project and the Stout Drive Water Main Extension. These contributions vary from year-to-year with fluctuations in completed and dedicated developer projects.

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Overview of Annual Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the independent auditor's report at the front of this report and the Authority's audited financial statements and supplementary information, which follow this section.

This annual report consists of four parts – management's discussion and analysis, the basic financial statements, notes explaining some of the information in the financial statements and supplementary information.

The financial statements report information about the Authority using full accrual accounting methods similar to those used by the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include the statements of net assets; statements of revenues, expenses and changes in net position; statements of cash flows; notes to the financial statements; and supplementary information.

The **statements of net position** present the financial position of the Authority on a full accrual historical cost basis. The statements of net position present information on all the Authority's assets and liabilities, with the difference reported as net position.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statements of revenues, expenses and changes in net position** presents the results of the business activities over the course of the fiscal year and the amount by which the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objective of a rate model is to improve financial position among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The **statements of cash flows** reports changes in cash and cash equivalents resulting from operating, capital, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of the financial data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

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Supplementary information includes schedules of operating expenses and also provides statements of revenues and expenses compared to budget.

The financial statements were prepared by the Authority's staff from detailed books and records of the Authority and audited during the annual independent external audit.

Summary of Organization and Business

The Authority is a body created pursuant to an ordinance of the Board of Supervisors of Warwick Township, Bucks County, Pennsylvania under an Act of the General Assembly of the State, approved May 2, 1945, P.L. 382, as amended and supplemented, known as the Municipal Authorities Act of 1945, as amended. The Secretary of the Commonwealth of Pennsylvania issued the certificate to incorporation of the Authority on May 1, 1969. The charter was amended on July 3, 1991 to extend the term of existence of the Authority to fifty (50) years from such date.

The governing body of the Authority is a Board consisting of five members appointed by the Township Board of Supervisors. It has been determined that the Authority is a component unit of Warwick Township. The terms of the members of the Board are five years and have been staggered so that the term of one member expires annually. The Authority has broad powers under the Act, including among others, the following: to acquire, hold, construct, improve, maintain and operate, own, lease, either in the capacity of lessor or lessee, sewers, sewer systems or parts thereof, sewage treatment works, including works of treating and disposing of industrial waste, water works, water supply works, water distribution systems, and all facilities necessary and incidental thereto.

The Authority employs ten (10) full time staff.

The Authority does not have taxing power; ongoing operations are funded from customer revenues. The Authority's customer connection base as of December 31, 2018 consisted of approximately 4,061 single-family residential, 7 multi-family residential and 136 commercial customer connections.

The Authority's Water and Sewer Systems

The Sewer System

The Authority currently operates two (2) separate sewage collection, conveyance and treatment systems within the Township serving two distinct watershed areas. The Fish Creek Wastewater Treatment Facility and Sewage Collection and Conveyance System (the "Fish Creek System"), located in the northern portion of the Township, discharges into Fish Creek, a small tributary of Neshaminy Creek. The Country Crossing Wastewater Treatment Facility and Sewage Collection and Conveyance System (the "Country Crossing System"), located in the southern portion of the Township, discharges into an unnamed tributary of the Little Neshaminy Creek.

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Fish Creek Watershed Area

The Fish Creek System collects sanitary sewage from the northern portion of the Township and in the area surrounding the village of Jamison and transmits it to the Fish Creek Wastewater Treatment Facility (the "Fish Creek Plant"). The Fish Creek System collects sanitary sewage through approximately 300,000 lineal feet of eight (8) inch, ten (10) inch, and eighteen (18) inch polyvinyl chloride (PVC) and ductile iron pipe with precast concrete manhole structures. The Authority operates eight (8) raw sewage pumping stations where gravity flow to the Fish Creek plant is not possible. All of these pumping stations contain emergency generators or back-up diesel pumps.

The Fish Creek Plant was designed to treat an average flow of 0.85 million gallons per day (mgd) using a sequencing batch reactor activated sludge wastewater treatment facility. The plant uses two concrete reactors which alternately treat batches of wastewater. Disinfection is provided by an ultraviolet light system with a capacity of 5.0 mgd. A cascade aerations outfall is provided immediately prior to discharge of the treated effluent into Fish Creek, providing increased dissolved oxygen in the effluent.

The Board of Directors commissioned Cardno BCM Engineers to prepare design plans and specifications for upgrades to the Fish Creek Plant in 2015. Authorization to bid the project was given by the Board and bids were received in November 2015. The Authority Board awarded the contract to the low bidder, LB Industries, Inc., for a total of \$1,917,269 and to Phillips Brothers Electric for a total of \$228,988. The contractor has reached substantial completion and the contract was closed out in 2018.

Little Neshaminy Creek Watershed Area

The Country Crossing System collects sanitary sewage primarily from the Country Crossing and Heritage Creek residential developments, located in the southern portion of the Township. This system was originally constructed in 1996 and 1997 by a private developer under Authority supervision, and ownership was subsequently transferred to the Authority. The Country Crossing System collects sanitary sewage through approximately 60,000 lineal feet of eight (8) inch diameter PVC and ductile iron pipe with precast concrete manhole structures. Three (3) pumping stations are operated within the service area where gravity flow to the Country Crossing Wastewater Treatment Facility (the "Country Crossing Plant") is not possible.

The Country Crossing Plant uses a sequencing batch reactor secondary and tertiary treatment system consisting of four rectangular reinforced concrete reactors and an ultraviolet light disinfection system to treat up to 0.32 mgd of municipal wastewater. An on-site equalization basin is used to provide the treatment system with a steady flow of waste. Treated effluent from the Country Crossing Wastewater Treatment Facility is processed through a sand filter and discharged into an unnamed tributary of the Little Neshaminy Creek.

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The Water System

The Authority purchases water in bulk from Aqua Pennsylvania Inc. and the North Wales Water Authority, and distributes it to residents of Warwick Township. The distribution system consists of ductile iron water mains ranging in size from four (4) to twelve (12) inch in diameter. The Authority maintains various booster stations, storage tanks and wells throughout the Township. The Authority has terminated its docket with the DRBC and no longer utilizes the ground water sources within the Township.

The Authority provides reliable high quality potable water used for drinking, fire protection and other purposes to residential and commercial customers. The Authority has a long-term agreement with Aqua PA and North Wales Water Authority to purchase 100 percent of the Townships' current and future water needs at a very reasonable price. These guaranteed supply agreements insure an adequate supply of water for our customers. Rate increases from Aqua PA are generally tied to the Consumer Price Index.

The interconnection with NWWA provides a redundant supply of water for WTWSA with approximately 100,000 gallons per day on an annual average with peak demands of up to 800,000 gallons per day.

Operations of the Water and Sewer Systems

<i>Ten Largest Water Users</i>		
<u>System User</u>	<u>Property Description</u>	<u>2018 Charges</u>
BRIDGES OF WARWICK	Senior Living	\$16,533
LIBERTY VILLAGE	Apartments	\$8,746
CAR WASH GROUP LLC	Car Wash	\$7,949
BRIDGE VALLEY ELEMENTARY	School	\$7,914
JAMISON POUR HOUSE	Restaurant	\$6,591
OUTBACK STEAKHOUSE	Restaurant	\$6,083
HERITAGE CREEK BLDG 4	Apartments	\$5,900
RINK AT WARWICK	Ice Skating Rink	\$4,978
HERITAGE CREEK BLDG 5	Apartments	\$4,340
MIDDLE BUCKS VO TECH	School	\$4,311
<i>Ten Largest Sewer Users</i>		
<u>System User</u>	<u>Property Description</u>	<u>2018 Charges</u>
BRIDGES OF WARWICK	Senior Living	\$21,573
LIBERTY VILLAGE	Apartments	\$11,525
CAR WASH GROUP LLC	Car Wash	\$10,496
BRIDGE VALLEY ELEMENTARY	School	\$10,451
OUTBACK STEAKHOUSE	Restaurant	\$8,098
JAMISON POUR HOUSE	Restaurant	\$8,094
HERITAGE CREEK BLDG 4	Apartments	\$7,862
RINK AT WARWICK	Ice Skating Rink	\$6,699
CAR WASH GROUP LLC	Car Wash	\$5,855
HERITAGE CREEK BLDG 5	Apartments	\$5,848

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Current Rate Schedule

- The Authority's customers are charged a quarterly fixed fee of \$25.88 for water and \$39.67 for sewer plus a usage charge based on gallons of water consumed. Customers with unmetered private wells pay a flat sewerage rate of \$185.64 per quarter for single family residences, \$260.96 per EDU for commercial users, and \$379.77 per EDU for industrial users. The Authority estimates that the typical residential customer pays approximately \$337 per year for water and \$464 per year for sewer. The Authority Board last increased rates in January 2017. There was no rate increase for 2018.

The Authority's current quarterly usage charges and tapping fees are shown below:

	<u>Water</u>	<u>Sewer</u>
Single Family Residential		
0 to 40,000 gallons (per 1,000 gallons)	\$3.89	\$6.36
Over 40,000 gallons (per 1,000 gallons)	\$5.82	\$0.00
Commercial, Industrial & Multi-Family Residential		
0 to 40,000 gallons (per 1,000 gallons)	\$3.89	\$6.36
Over 40,000 gallons (per 1,000 gallons)	\$5.82	\$7.51
Tapping Fee per EDU	\$4,500	\$6,300

Billing

Customers are invoiced on a quarterly basis. Full payment is due in thirty days after the billing date. A penalty of 15% is added to all bills not paid when due. Delinquent notices are mailed to delinquent accounts, and payment is required fourteen days after notices are mailed. Once a customer is past due for two or more quarters the following action is taken:

1. A letter is sent certified mail to the customer stating that a delinquent notice was mailed which provided the customer with an opportunity to pay the balance or to set up a payment schedule. The customer is further advised that (a) a lien will be filed on their property at the Prothonotary's Office at the Bucks County Courthouse in ten working days unless full payment is received, and that all costs related to the legal action will be added to their account and (b) service will be terminated if full payment is not received within ten working days after the lien is filed.
2. (a) If there is no response from the customer within the ten working days after the date of the certified letter, a lien is filed in the Prothonotary's Office at the Bucks County Courthouse. A letter is sent to the customer stating a lien was filed on their property, along with a time-stamped copy of the document. In order to have the lien satisfied of record, the customer must pay the entire outstanding balance including legal fees. (b) If there is no response from the customer ten working days after the lien has been filed, water service is terminated. Sewer only customers continue to have their property lien.
3. When the amount of municipal liens filed against a property reaches or exceeds the sum of \$1,000, or when a municipal lien remains unpaid after one year from the date of filing, the Authority files a Writ of Scire Facias with the Court in order to enforce the lien(s). A Writ

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of Scire Facias is similar to a civil complaint which is filed to commence a lawsuit. The purpose of the Writ is to reduce the lien(s) to judgment, so that, if it still remains unpaid, execution proceedings can be brought in Court to force the property to a sheriff sale in order to satisfy the debt. A property owner has a right to file an Answer to the Writ if they dispute some aspect of the lien(s); however, an Authority merely must prove that the debt is owed and unpaid.

Financial Condition

Total assets increased \$179,356 or .43% from 2017. Net position increased \$248,692 in 2018 from 2017. Unrestricted net position decreased \$147,881 or 2.33% in 2018.

Accounts receivable at year-end was \$177,879 less than year-end 2017 or approximately 17.26%. The Authority's billing department methodically pursues delinquent customer accounts; all accounts receivable are considered collectible since the Authority liens all customers' property for non-payment.

Results of Operations

Operating Revenue: Revenues from operations are comprised of three general categories: water service, sewer service and other charges. Other charges include meter charges, meter installation charges, administrative fees and charges for miscellaneous billed services. The Authority has three core classes of water and sewer customers: single-family residential, multi-family residential and commercial. In addition to these three classes, the Board has approved the sale of water to commercial bulk water haulers.

The Authority's water revenue increased .43% and sewer revenues decreased .83% from the previous year. Water revenue increased \$6,042 and sewer revenue decreased \$16,910 from 2017.

Total 2018 operating revenue decreased by \$24,148 from the calendar year 2017. The majority of the water and sewer sales were from residential customers, approximately 91%.

Expenses: Total operating expenses of the Authority, before depreciation, decreased \$110,266 from calendar year 2017 and were under budget by \$165,974. Operating income, before depreciation, is \$673,811 for 2018 compared to \$587,693 for 2017.

Water operating expenses increased .67%, sewer operating expenses decreased 6.91% and administrative expenses decreased 4.84% from 2017 to 2018.

Depreciation and amortization expense for 2018 and 2017 was \$1,536,420 and \$1,476,674, respectively.

Warwick Township Water & Sewer Authority
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Summary of Annual Revenues and Expenses of the Water and Sewer System

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Operating Revenues</u>					
Water Revenue	\$1,344,285	\$1,344,285	\$1,417,908	\$1,412,074	\$1,418,116
Sewer Revenue	1,919,504	1,919,504	2,023,689	2,034,275	2,017,365
Connection Fees	-	-	-	-	-
Administrative Fees for Professional Services	11,438	13,879	13,570	6,799	4,294
Construction Usage and Certificate Fees	15,389	13,908	12,850	13,100	13,000
Meter Installation	14,168	3,291	29,008	27,325	19,289
Miscellaneous	32,313	29,473	31,085	3,914	1,275
Total Operating Revenue	<u>3,337,097</u>	<u>3,324,340</u>	<u>3,528,110</u>	<u>3,497,487</u>	<u>3,473,339</u>
<u>Operating Expenses (1)</u>					
Water Operating Costs	990,305	990,305	1,033,568	1,013,326	1,020,125
Sewer Operating Costs	1,126,038	1,126,038	1,208,446	1,219,089	1,134,809
General and Administrative	596,061	627,653	672,428	677,379	644,594
Total Operating Expenses	<u>2,712,404</u>	<u>2,743,996</u>	<u>2,914,442</u>	<u>2,909,794</u>	<u>2,799,528</u>
Operating Income (Loss) before Depreciation	624,693	580,344	613,668	587,693	673,811
Depreciation and Amortization Expense	<u>1,367,285</u>	<u>1,401,272</u>	<u>1,442,363</u>	<u>1,476,674</u>	<u>1,536,420</u>
Operating Income (Loss)	(742,592)	(820,928)	(828,695)	(888,981)	(862,609)
<u>Non-Operating Revenue (Expenses)</u>					
Tapping Fees	416,820	597,079	166,019	283,599	228,700
Interest Income	19,659	19,479	19,417	29,574	63,139
Interest Expense	(153,100)	(146,735)	(136,179)	(113,721)	(128,809)
Bond Issuance Expense	-	-	-	-	-
Miscellaneous Income (Expense)	12,026	2,837	53,788	81	38,940
Gain on disposal of property and equipment	249,223	0	0	0	0
Grant Income	-	-	-	-	-
Total Non-Operating Revenues (Expenses)	<u>544,628</u>	<u>472,660</u>	<u>103,045</u>	<u>199,533</u>	<u>201,970</u>
Net Income (Loss)	<u>\$ (197,964)</u>	<u>\$ (348,268)</u>	<u>\$ (725,650)</u>	<u>\$ (689,448)</u>	<u>\$ (660,639)</u>
 <i>Calculation of Debt Service Coverage Ratio</i>					
Net Income (Loss)	\$ (197,964)	\$ (348,268)	\$ (725,650)	\$ (689,448)	\$ (660,639)
Add Back					
Interest and Bond Issue Expenses	153,100	146,735	136,179	113,721	128,809
Depreciation and Amortization	1,367,285	1,401,272	1,442,363	1,476,674	1,536,420
Total Available for Debt Service	<u>\$ 1,322,421</u>	<u>\$ 1,199,739</u>	<u>\$ 852,892</u>	<u>\$ 900,947</u>	<u>\$ 1,004,590</u>
Maximum Annual Debt Service	<u>\$ 439,609</u>	<u>\$ 439,609</u>	<u>\$ 439,609</u>	<u>\$ 439,609</u>	<u>\$ 430,659</u>
Coverage Ratio	3.01	2.73	1.94	2.05	2.33

(1) Excludes depreciation and amortization

Capital Contributions: The Authority accepts additions to its collection and distribution systems from developers, commonly referred to as Developer Contributions. Prior to GASB 33 and 34 implementation, Developer Contributions were recorded as direct contributions to equity. GASB 33 and 34 define these Developer Contributions as non-operating revenues and requires reporting the amounts through the Statements of Revenues, Expenses, and Changes in Net Position.

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There were \$909,331 developer contributions of infrastructure for 2018. These contributions are comprised of the PennDOT Route 263 Project and the Stout Drive Water Main Extension. These contributions vary from year-to-year with fluctuations in completed and dedicated developer projects.

Tapping Fees: The Authority charges all new customers a water and/or sewer tapping fee on an EDU basis for their pro-rata portion of the water and sewer facilities and report the tapping fees as non-operating income when a property goes to settlement. Residential and commercial real estate developers pay the majority of these fees in blocks upon the signing of a Developer Agreement.

Tapping fee revenues were \$228,700 for 2018 compared to \$283,599 for 2017, and for 2017 were \$32,401 under the budgeted amount of \$316,000. Tapping fees vary from year-to-year with fluctuations in development and therefore are difficult to predict.

Rate Covenant

The Authority covenants and agrees that it will, at all times, adopt a resolution fixing and charging water rates, sewer rates and other charges for the services and facilities furnished by the Authority, together with other income, excluding depreciation, amortization and interest expense that will yield annual change in net assets in the fiscal year equal to at least 1.1 times the sum of the maximum annual debt service payments. The rate covenant in the Bond Resolution obligates the Authority to review rates twice per year and to revise such rates and charges as necessary to meet the coverage test.

On January 25, 2018, Moody's issued the Annual Issuer Comment Report for the Warwick Water and Sewer Authority, with no change to the positive Aa3 rating. The report reflects that the Authority Board and its management team has positioned the Authority well utilizing good fiscal planning, the willingness to raise rates when appropriate and proper operation and maintenance of its infrastructure.

On November 21, 2016 the Board adopted a new rate schedule effective January 1, 2017, projected to meet the requirements of the 2012 Bond Indenture and future capital reserve requirements. The Authority's debt service coverage ratio for 2018 and 2017 was 2.33 and 2.05, respectively.

Final Comments

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Warwick Township Water and Sewer Authority, Finance Department, P.O. Box 315, Jamison, Pennsylvania 18929.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
STATEMENTS OF NET POSITION
DECEMBER 31 2018 AND 2017**

	2018	2017
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Current Assets		
Cash and cash equivalents	\$ 4,317,089	\$ 3,918,656
Accounts receivable, customers and developers	852,974	1,030,853
Notes receivable, current maturities	33,973	54,393
Inventory	38,974	54,809
Prepaid expenses	27,043	41,462
Total Current Assets	5,270,053	5,100,173
Restricted Assets		
Cash, escrow funds - developers	174,071	191,736
Cash, Series 2012 Bonds - trust accounts	2,293,180	2,351,325
Total Restricted Assets	2,467,251	2,543,061
Capital Assets		
Land and construction in progress	700,311	3,470,277
Plant and equipment, net of accumulated depreciation	33,783,850	30,908,498
Total Capital Assets	34,484,161	34,378,775
Notes receivable, net of current maturities	67,000	87,100
Total Assets	\$ 42,288,465	\$ 42,109,109
Deferred Outflows of Resources		
Deferred loss on bond refundings	\$ 165,554	\$ 175,292
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current Liabilities		
Current maturities of bonds payable	\$ 300,000	\$ 300,000
Accounts payable, vendors and developers	385,234	163,662
Accrued interest payable	63,504	65,304
Accrued payroll and payroll withholdings	20,041	24,332
Accrued compensated absences	12,701	14,105
Total Current Liabilities	781,480	567,403
Restricted Liabilities		
Escrow deposits, developers	174,071	191,736
Long-Term Liabilities		
Deferred income	664,600	644,900
Bonds payable, net of unamortized discount	4,897,297	5,192,483
Total Long-Term Liabilities	5,561,897	5,837,383
Total Liabilities	\$ 6,517,448	\$ 6,596,522
Deferred Inflows of Resources	\$ -	\$ -
Net Position		
Invested in capital assets, net of related debt	29,286,864	28,896,589
Restricted for debt service	447,096	440,798
Unrestricted	6,202,611	6,350,492
Total Net Position	35,936,571	35,687,879
Total Liabilities and Deferred Inflows of Resources and Net Position	\$ 42,454,019	\$ 42,284,401

See notes to financial statements.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Water revenue	\$ 1,418,116	\$ 1,412,074
Sewer revenue	2,017,365	2,034,275
Administrative fees	4,294	6,799
Construction usage and certificate fees	13,000	13,100
Meter installations	19,289	27,325
Rental income	-	2,214
Miscellaneous operating revenues	1,275	1,700
Total Operating Revenues	<u>3,473,339</u>	<u>3,497,487</u>
Operating Expenses		
Water plant operating expenses	1,020,125	1,013,326
Wastewater plant operating expenses	1,134,809	1,219,089
General and administrative expenses	644,594	677,379
Total Operating Expenses	<u>2,799,528</u>	<u>2,909,794</u>
Operating Income Before Depreciation and Amortization	673,811	587,693
Depreciation and amortization	<u>1,536,420</u>	<u>1,476,674</u>
Operating Loss	<u>(862,609)</u>	<u>(888,981)</u>
Nonoperating Revenues		
Water tapping fees	134,200	144,999
Sewer tapping fees	94,500	138,600
Interest income	63,139	29,574
Miscellaneous income	38,940	81
Total Nonoperating Revenues	<u>330,779</u>	<u>313,254</u>
Nonoperating Expense		
Interest expense	<u>128,809</u>	<u>113,721</u>
Net Nonoperating Revenues	<u>201,970</u>	<u>199,533</u>
Loss Before Capital Contributions	(660,639)	(689,448)
Capital contributions	<u>909,331</u>	<u>1,061,709</u>
Increase in Net Position	248,692	372,261
Net position, Beginning	<u>35,687,879</u>	<u>35,315,618</u>
Net position, Ending	<u>\$ 35,936,571</u>	<u>\$ 35,687,879</u>

See notes to financial statements.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

Increase (Decrease) in Cash and Cash Equivalents

	2018	2017
Cash Flows From Operating Activities		
Cash received from customers and developers	\$ 3,651,218	\$ 3,503,049
Cash paid to suppliers and developers	(1,625,050)	(2,129,441)
Cash paid to employees	(907,072)	(820,002)
Net Cash and Cash Equivalents Provided by Operating Activities	1,119,096	553,606
Cash Flows From Capital and Related Financing Activities		
Tapping fees received	248,400	32,399
Acquisition of capital assets	(717,923)	(1,806,973)
Interest paid on Series 2012 Bonds	(130,609)	(118,222)
Principal paid on Series 2012 Bonds	(300,000)	(300,000)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(900,132)	(2,192,796)
Cash Flows From Investing Activities		
Interest income received	63,139	29,574
Payments received on notes receivable	40,520	38,465
Net Cash and Cash Equivalents Provided by Investing Activities	103,659	68,039
Net Change in Cash and Cash Equivalents	322,623	(1,571,151)
Cash and Cash Equivalents, Beginning	6,461,717	8,032,868
Cash and Cash Equivalents, Ending	\$ 6,784,340	\$ 6,461,717
Reconciliation of Operating Loss to Net Cash and Cash Equivalents Provided by Operating Activities		
Operating loss	\$ (862,609)	\$ (888,981)
Adjustments to reconcile operating loss to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,536,420	1,476,674
Miscellaneous income	38,940	81
Change in:		
Accounts receivable, customers and developers	177,879	5,562
Inventory	15,835	(15,555)
Prepaid expenses	14,419	36,155
Accounts payable, vendors and developers	221,572	(15,699)
Escrow deposits, developers	(17,665)	(49,873)
Accrued payroll and payroll withholdings	(4,291)	6,681
Accrued compensated absences	(1,404)	(1,439)
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 1,119,096	\$ 553,606
Supplemental Disclosure of Noncash Capital and Related Financing Activities		
Assets acquired through capital contributions	\$ 909,331	\$ 1,061,709

See notes to financial statements.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Warwick Township Water and Sewer Authority (the Authority) is located in the County of Bucks, Pennsylvania, and was incorporated on May 1, 1969 under the Municipal Authorities Act of 1945. The Authority is a municipal corporation with a five-member board of directors. The Authority supplies water and sewer services to certain residents of the Township of Warwick (the Township).

The criteria used in determining the scope of the reporting entity for financial reporting purposes is consistent with the guidance contained in Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units. These criteria are:

- *Selection of the governing authority:*

The members of the Authority's Board of Directors are appointed to five-year terms by the Township supervisors. While there is continuing communication with the Township, there is little linkage to elected Township officials after appointment.

- *Designation of management:*

The Authority's management and employees, who are responsible for the Authority's operations, are appointed by, and are held accountable to, the Authority's Board of Directors.

- *Ability to significantly influence operations:*

The Authority reviews and approves all budgetary actions, signs contracts as the contracting agency, hires and controls key management personnel, and exercises control over facilities, property, and policies relating to the services provided by the Authority. The Township assumes no responsibility for the Authority's day-to-day operations.

- *Accountability for fiscal matters:*

Budgetary authority and control over collection and disbursement of funds, fiscal management, and funding deficits rests with the Authority.

Based on these criteria, the Authority is a Component Unit of the Township of Warwick. The Authority's relationship with the Township is so significant that its exclusion would render the Township's financial statements misleading, even though financial accountability to the Township is absent.

Basis of Accounting

The Authority's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accounting policies are based on generally accepted accounting principles for self-supporting governmental enterprise funds, a proprietary fund-type. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

New Accounting Pronouncements

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. This pronouncement does not impact the Authority for the year ending December 31, 2018.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017. This pronouncement does not impact the Authority for the year ending December 31, 2018.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017. This pronouncement does not impact the Authority for the year ending December 31, 2018.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods after December 15, 2019. The Authority has not determined the effect of this pronouncement.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Budgetary Data

The Authority's management prepares the Authority's operating budget with input from the Finance Committee. The Authority follows these procedures in establishing the budgetary data included in the financial statements:

- A preliminary budget is presented to the Board of Directors in an October public meeting
- The operating budget includes proposed expenditures and the means of financing them
- At the November public meeting, the Board of Directors reviews the budget
- Prior to December 31st, the Authority holds a public meeting, after which the budget is legally adopted through passage of a resolution
- The budget is certified by the Authority's Engineer that proposed rates for water and sewer services will achieve the 110% (or 1.1 times) debt service coverage requirement
- All budget revisions require the approval of the Board of Directors

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets separately held) with a maturity of three months or less when purchased to be cash equivalents.

Comparative Information

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Customer billings are computed from meter readings and billed quarterly based on the amount consumed in the previous quarter. All bills are due and payable within thirty days after the end of the service period covered. If not paid by the due date, the bills are considered delinquent.

No allowance for uncollectible accounts has been provided since management considers all accounts to be collectible. The Authority is permitted to lien the customer's property if the customer does not remit payment timely.

Inventory

Inventory held by the Authority consists of materials, supplies, chemicals and water meters. Inventory is stated at cost, which is determined using the first-in, first-out method.

Capital Assets

Capital assets are stated at cost or fair market value at time of contribution to the Authority. Land and construction in progress is not depreciated. When construction projects are complete, the cost is transferred to the plant and equipment accounts. Plant additions and improvements are capitalized and depreciated. Replacements, maintenance and repairs, which do not improve or extend the life of the asset are expensed currently. Depreciation is provided for on a straight-line basis. Depreciation expense for 2018 and 2017 totaled \$1,521,868 and \$1,461,789, respectively.

Depreciable lives of plant and equipment are estimated as follows:

Asset	Years
Plant and improvements	20 - 50
Collection lines	50
Machinery and equipment	10
Vehicles	5

The minimum capitalization threshold is an individual item with a cost of more than \$500 and a useful life exceeding one year.

Restricted Assets

Restricted assets include amounts held in trust accounts for the Series 2012 Bonds, which are to be used for repayment of the bonds and the construction of capital assets. The Authority's "net position restricted for debt service" includes the excess of assets over certain liabilities restricted for debt service on the bonds outstanding.

Restricted assets also include developer escrows. Developer deposits held by the Authority are to be used to pay for engineering, legal, inspection costs and administrative fees associated with the respective developers' projects. Upon receipt of the funds, the Authority records the cash and corresponding liability, and when the Authority receives invoices for expenses on behalf of the developer, it disburses the funds and reduces the liability.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Capitalization of Interest

Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. Because the Authority's debt proceeds are not restricted to specified assets, interest expense incurred in connection with construction of capital assets is not reduced by interest earned on the investment of funds borrowed for construction. During 2018 and 2017, respectively, \$0 and \$21,388 of interest expense was capitalized.

Financing Costs

Bond issuance costs are written off in the year incurred.

Capital Contributions

Distribution and collection lines, pumping stations, wells and storage and treatment facilities constructed and installed by developers and dedicated to the Authority are recorded as capital contributions and depreciated over their estimated useful lives upon acceptance of the dedication. Capital contributions totaled \$909,331 and \$1,061,709 during the years ended December 31, 2018 and 2017, respectively. Contributed capital is recorded as income in the year of dedication to the Authority.

Unamortized Bond Discounts

Bond discounts are deferred and amortized over the term of the related bonds using the bonds outstanding method, which approximates the interest method. For financial reporting purposes, bond discounts are offset against bonds payable.

Deferred Loss on Bond Refunding

Unamortized original issue discount and bond discounts on refunded bonds are deferred and amortized, using the bonds outstanding method, over the original maturity of the refunded bonds. For financial reporting purposes, these deferred refunding costs are reported as deferred outflows of resources.

Deferred Income

Developers pay the Authority for tapping fees prior to the construction of distribution and collection lines. The fees are recorded as unearned revenue when received and recognized as nonoperating revenues when the developer connects the water and sewer lines to the Authority's system.

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following four components: invested in capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Net position invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets.

Net position restricted for capital activity consists of cash and cash equivalents restricted to fund capital improvements, reduced by deferred income (tapping fees).

Net position restricted for debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.

Unrestricted net position consists of all other assets not included in the above categories.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources (revenues) until that time.

Revenue Recognition

The Authority distinguishes between operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For expenses that could be paid by either restricted or unrestricted resources, it is the Authority's policy to use restricted revenues first, and then unrestricted resources as they are needed.

Revenues and Rate Structure

Revenues from water and sewer services are recognized on the accrual basis as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service reserves and debt coverage.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the Authority's employees to defer a portion of their salary until future years. Compensation deferred is not available to employees until termination, retirement, death, or unforeseeable emergency. The Authority's contributions are made each pay. The Authority matches 50% of an employee's contributions, up to 10% of their compensation. For the years ended December 31, 2018 and 2017, the Authority's matching contribution was \$25,709 and \$26,874, respectively.

Compensated Absences

Unpaid vacation and sick time is recorded as an expense in the period it is earned and considered payable from current financial resources. The Authority does not compensate unpaid sick time upon employees' termination or retirement. The estimated value of vacation time owed to employees who may be paid in subsequent years or upon termination or retirement and, therefore, payable from future resources is recorded in the current year.

NOTE 2: RESTRICTED ASSETS

Bond Trust Accounts

In accordance with the terms of the Series 2012 Bond Trust Indenture, the Authority maintains funds in various trust accounts, segregated for specific use and security of the bondholders. The trust accounts are maintained by an independent trustee in accordance with the Trust Indenture.

Deposits in the trust accounts must be insured or secured as described in Note 3, and may be invested as provided by law and the Trust Indenture. Deposits in the trust accounts consist of cash and cash equivalents. Income received on amounts deposited, other than Construction Fund deposits, is transferred to the Revenue Fund and is available to pay operating costs.

<u>Water and Sewer Revenue Bonds - Series 2012</u>	<u>2018</u>	<u>2017</u>
Restricted Cash and Cash Equivalents:		
Revenue Account	\$ 39,076	\$ 44,019
Revenue Account - Electronic Deposits	8,508	3,250
Bond Revenue Fund	1,798,303	1,786,471
Debt Service Reserve	439,609	439,609
Bond Redemption and Improvement Fund	-	76,567
Construction Fund	197	220
Debt Service Fund	7,487	1,189
Total Restricted Trust Accounts - Series 2012	\$ 2,293,180	\$ 2,351,325

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 2: RESTRICTED ASSETS (continued)

Developer Escrow Accounts

At December 31, 2018 and 2017, cash and cash equivalents include \$174,071 and \$191,736, respectively, held as developer escrow funds. These funds are held by the Authority to guarantee the completion of projects by developers as required by the development agreements and to pay professional fees related to the respective projects.

NOTE 3: CREDIT RISK

Cash and Cash Equivalents

Custodial credit risk - deposits: Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. Balances exceeding federal depository insurance limits are exposed to custodial credit risk. However, under Pennsylvania Act 72, all amounts in excess of insurance limits are collateralized by securities held by the pledging financial institution, but not in the Authority's name. As of December 31, 2018 and 2017, \$5,409,415 and \$5,826,490, respectively, was exposed to custodial credit risk.

A reconciliation of amounts exposed to custodial credit risk to total cash and cash equivalents held by the Authority follows:

	2018	2017
Uninsured and collateral held by the pledging bank's trust department, but not in the Authority's name	\$ 5,409,415	\$ 5,826,490
Plus: Insured amounts	1,383,224	652,870
Carrying Amounts - Bank Balances	6,792,639	6,479,360
Plus: Petty cash	100	100
Less: Outstanding checks	(8,399)	(17,743)
Total Cash and Cash Equivalents Per Financial Statements	\$ 6,784,340	\$ 6,461,717

Total cash and cash equivalents include:

	2018	2017
Operating accounts - unrestricted	\$ 4,317,089	\$ 3,918,656
Restricted accounts - bond trust accounts	2,293,180	2,351,325
Restricted accounts - developer escrow accounts	174,071	191,736
	\$ 6,784,340	\$ 6,461,717

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 4: CAPITAL ASSETS

	2018				Balance at December 31, 2018
	Balance at January 1, 2018	Additions	Deletions/ Retirements	Transfers	
<u>Land and CIP</u>					
Land	\$ 551,571	\$ -	\$ -	\$ -	\$ 551,571
Construction in progress (CIP)	2,918,706	329,484	-	(3,099,450)	148,740
Total Land and CIP	\$ 3,470,277	\$ 329,484	\$ -	\$ (3,099,450)	\$ 700,311
<u>Plant and Equipment</u>					
Plant facilities	\$ 53,307,506	\$ 1,594,990	\$ (549,504)	\$ 3,099,450	\$ 57,452,442
Plant equipment	485,993	3,011	-	-	489,004
Leasehold improvements	321,627	-	-	-	321,627
Furniture and equipment	178,722	5,082	-	-	183,804
Vehicles	215,356	-	-	-	215,356
Total Plant and Equipment	54,509,204	1,603,083	(549,504)	3,099,450	58,662,233
Accumulated depreciation	(23,600,706)	(1,521,868)	244,191	-	(24,878,383)
Net Plant and Equipment	\$ 30,908,498	\$ 81,215	\$ (305,313)	\$ 3,099,450	\$ 33,783,850
2017					
	Balance at January 1, 2017	Additions	Deletions/ Retirements	Transfers	Balance at December 31, 2017
<u>Land and CIP</u>					
Land	\$ 551,571	\$ -	\$ -	\$ -	\$ 551,571
Construction in progress (CIP)	1,232,100	1,703,451	-	(16,845)	2,918,706
Total Land and CIP	\$ 1,783,671	\$ 1,703,451	\$ -	\$ (16,845)	\$ 3,470,277
<u>Plant and Equipment</u>					
Plant facilities	\$ 52,127,604	\$ 1,163,057	\$ -	\$ 16,845	\$ 53,307,506
Plant equipment	485,993	-	-	-	485,993
Leasehold improvements	321,627	-	-	-	321,627
Furniture and equipment	176,548	2,174	-	-	178,722
Vehicles	215,356	-	-	-	215,356
Total Plant and Equipment	53,327,128	1,165,231	-	16,845	54,509,204
Accumulated depreciation	(22,138,917)	(1,461,789)	-	-	(23,600,706)
Net Plant and Equipment	\$ 31,188,211	\$ (296,558)	\$ -	\$ 16,845	\$ 30,908,498

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 5: NOTES RECEIVABLE

Notes receivable relate to tapping and connection fees billed to residential customers. The notes accrue interest at 6%.

Scheduled future maturities of notes receivable at December 31, 2018 are:

Year Ending December 31	Amount
2019	33,973
2020	26,800
2021	26,800
2022	13,400
	\$ 100,973

NOTE 6: BONDS PAYABLE

On December 3, 2012, the Authority issued Water and Sewer Revenue Bonds, Series of 2012, in the principal amount of \$6,905,000. The proceeds of the Series 2012 Bonds were used (1) to provide funds for the Authority's capital improvement program, (2) to refund the Authority's Series 2007 Bonds, (3) to fund the Debt Service Reserve Fund in an amount equal to maximum annual debt service on the Series 2012 Bonds, and (4) to pay costs of issuance of the Series 2012 Bonds. The Series 2007 Bonds were defeased on December 3, 2012.

The Series 2012 Bonds are secured by the assignment and pledge of the Authority's water and sewer revenues, as defined in the 2012 Trust Indenture.

The Authority refunded the Series 2007 Bonds at no accounting loss, and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$627,068. The Authority in effect reduced its aggregate debt service payments on the Series 2007 Bonds in the amount of \$741,793.

In accordance with the 2012 Trust Indenture, the Authority is required (1) to generate revenues to pay the operating expenses of the Authority, and (2) to provide an amount equal to at least 1.1 times the maximum annual debt service requirements (the rate covenant). For the years ended December 31, 2018 and 2017, the Authority's debt service coverage is 2.33 and 1.75 times, respectively, which exceeds the rate covenant requirement.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6: BONDS PAYABLE (continued)

Interest is payable semi-annually on January 1st and July 1st of each year, beginning July 1, 2013, until maturity or earlier redemption. The annual requirements to amortize principal and interest are:

Maturity Date (July 1)	Interest Rate	Principal Amount	Interest	Total Debt Service
2019	1.450%	300,000	127,009	427,009
2020	2.000%	300,000	122,659	422,659
2021	2.000%	300,000	116,659	416,659
2022	2.000%	320,000	110,659	430,659
2023	2.125%	325,000	104,259	429,259
2024	2.250%	330,000	97,352	427,352
2025	2.375%	335,000	89,927	424,927
2026	2.500%	345,000	81,971	426,971
2027	2.500%	355,000	73,346	428,346
2028	2.625%	365,000	64,471	429,471
2029	2.700%	370,000	54,890	424,890
2030	2.750%	380,000	44,900	424,900
2031	2.750%	395,000	34,450	429,450
2032	2.750%	405,000	23,587	428,587
2033	3.000%	415,000	12,450	427,450
Total Debt Service		\$ 5,240,000	<u>\$ 1,158,589</u>	<u>\$ 6,398,589</u>
Less: Current Maturities		<u>(300,000)</u>		
Total Long-term Bonds Outstanding		4,940,000		
Less: Unamortized Discount		<u>(42,703)</u>		
Net Long-term Bonds Outstanding		<u>\$ 4,897,297</u>		

The Series 2012 Bonds scheduled to mature on or after July 1, 2018, are subject to redemption prior to maturity at the Authority's option, in whole or in part, on January 1, 2018 or thereafter upon payment of principal plus accrued interest to redemption date.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6: BONDS PAYABLE (continued)

Changes in bonds payable for the years ended December 31, 2018 and 2017 are:

	<u>Balance at January 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2018</u>
Series 2012	\$ 5,540,000	\$ -	\$ (300,000)	\$ 5,240,000
	<u>Balance at January 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2017</u>
Series 2012	\$ 5,840,000	\$ -	\$ (300,000)	\$ 5,540,000

NOTE 7: COMMITMENTS

Lease

The Authority leases office space from the Township under a lease extension that expires on December 31, 2023. The current monthly rent is \$4,000. Rent expense totaled \$48,000 for the years ending December 31, 2018 and 2017.

Construction in Progress

WTWSA entered into an agreement with the CTL Group of Skokie, Illinois to perform a document review and structural analysis of the SBR reactor tanks for the Fish Creek Wastewater Treatment Plant. The information and recommendations obtained from the analysis have been used by the Authority Board to determine a course of action for future modifications at the treatment plant. In September 2012, the Authority Board engaged the services of BCM Engineers to design the modification of the plant to allow each existing SBR tank to be taken off line and inspected. The Authority Board entered into an agreement with LB Industries as the low bidder for the mechanical upgrade and Phillips Brothers Electric for the electrical upgrade of the Fish Creek Wastewater Treatment Plant in November 2015. The bid award for the project was \$2,146,257. The project was completed in the summer of 2018.

During 2014, the Pennsylvania Department of Transportation (PennDOT) began a major reconstruction of Route 263 in Warwick Township. The project requires the relocation of a significant portion of the water and sewer facilities within the proposed work area. The Authority entered into an agreement with PennDOT to publicly bid the Authority relocation work as part of the overall reconstruction project. The negotiated agreement with PennDOT provides for a 75% reimbursement to the Authority of the \$1,175,000 expenses related to the facility relocation. Submissions are made by the Authority to PennDOT periodically as expenses are accrued. Final payment on the project was completed in 2018. The Authority's financial obligation for the project was \$324,977.66 including construction, engineering and legal costs. Depreciation of the asset is recorded based on analysis done by the Authority Engineer, detailing the disposal of the asset and recording the infrastructure still in use.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 7: COMMITMENTS (continued)

Water Service Contract

Effective November 1, 1998, the Authority signed a twenty five (25) year contract with Aqua Pennsylvania, Inc. to provide water to its service area.

For the period November 28, 2017 through November 27, 2018, the monthly charge was \$45,217.08 for up to 600,000 gallons per day, and \$2.19 for every thousand gallons in excess of 600,000 gallons per day up to 800,000 gallons per day, and \$2.13 for every thousand gallons in excess of 80,000 gallons per day. Aqua increased its rates to \$45,721.69 for up to 600,000 gallons per day, and \$2.21 for every thousand gallons in excess of 600,000 gallons per day up to 800,000 gallons per day, and \$2.15 for every thousand gallons in excess of 80,000 gallons per day effective November 28, 2018.

North Wales Water Authority - Water Supply Agreement

In November 2011, the Authority signed a ten (10) year agreement (with a five (5) year renewal option) with the North Wales Water Authority for the supply of water to the Authority for sale to customers. The agreement has a minimum daily consumption rate of 100,000 gallons per day and a maximum of 800,000 gallons per day. In addition, the Authority is required to purchase on an annual basis an average of 200,000 gallons per day from North Wales Water Authority. The Authority is charged \$2.50(the base rate) per thousand gallons up to 800,000 gallons per day, and 1.5 times the base rate per thousand gallons over 800,000 gallons per day for a period of 48 months, at which point the base rate will be adjusted.

NOTE 8: CONTINGENCIES

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disaster for which the Authority carries commercial insurance.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through April 22, 2019, which is the date the financial statements were available to be issued. There were no significant subsequent events to report.

WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION
FOR YEAR ENDED DECEMBER 31, 2017

	Water	Sewer	Administrative	2018 Total Expenses	2017 Total Expenses
Operating Expenses					
Personnel Expenses:					
Payroll	\$ 147,746	\$ 197,148	\$ 352,972	\$ 697,866	\$ 636,220
Employee benefits	25,282	44,383	60,372	130,037	99,735
Payroll taxes	12,435	16,452	30,268	59,155	51,930
Pension	5,623	5,884	14,202	25,709	26,875
Total Personnel Expenses	<u>191,086</u>	<u>263,867</u>	<u>457,814</u>	<u>912,767</u>	<u>814,760</u>
Direct Expenses:					
Contract water purchases	685,014	-	-	685,014	723,002
Sludge transportation	-	358,086	-	358,086	482,069
Utilities	19,631	192,217	-	211,848	235,377
Chemicals	-	78,115	-	78,115	64,231
Meter expense	31,037	46,566	-	77,603	71,483
System repairs and maintenance	23,700	49,649	-	73,349	96,404
Plant repairs and maintenance	-	42,963	-	42,963	34,282
Testing	13,677	14,464	-	28,141	25,732
Truck expenses	10,539	12,291	-	22,830	13,881
Operating supplies	4,618	9,254	-	13,872	13,532
Monitoring and regulating	4,799	-	-	4,799	4,799
Ground maintenance	4,941	5,302	-	10,243	3,618
Road maintenance	-	887	-	887	-
Uniforms	2,064	1,989	-	4,053	1,367
PA One Call	502	308	-	810	684
Permits and licenses	46	2,190	-	2,236	1,805
Total Direct Expenses	<u>800,568</u>	<u>814,281</u>	<u>-</u>	<u>1,614,849</u>	<u>1,772,266</u>
Administrative Expenses:					
Insurance	22,871	46,984	5,751	75,606	60,984
Legal	-	-	36,889	36,889	80,968
Auditing and accounting	-	-	13,500	13,500	13,000
Payroll service	-	-	5,607	5,607	5,290
Computer support	-	-	16,204	16,204	28,921
Trust and bank fees	-	-	4,500	4,500	7,500
Office rent	-	-	48,000	48,000	48,000
Office expenses	-	-	29,519	29,519	27,555
Postage	-	-	8,163	8,163	10,353
Telephone	-	-	10,019	10,019	8,004
Meetings, seminars and conferences	-	-	344	344	2,044
Dues and memberships	-	-	4,706	4,706	3,252
Education and training	-	-	3,578	3,578	4,589
Engineering	5,600	9,677	-	15,277	22,308
Total Administrative Expenses	<u>28,471</u>	<u>56,661</u>	<u>186,780</u>	<u>271,912</u>	<u>322,768</u>
Total Operating Expenses	<u>\$ 1,020,125</u>	<u>\$ 1,134,809</u>	<u>\$ 644,594</u>	<u>\$ 2,799,528</u>	<u>\$ 2,909,794</u>

See independent auditor's report.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
REVENUES AND EXPENSES
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Water revenue	\$ 1,430,000	\$ 1,418,116	\$ (11,884)
Sewer revenue	2,045,000	2,017,365	(27,635)
Administrative fees	8,500	4,294	(4,206)
Construction usage and certificate fees	15,000	13,000	(2,000)
Meter installations	23,500	19,289	(4,211)
Miscellaneous operating revenues	5,500	1,275	(4,225)
Total Operating Revenues	<u>3,527,500</u>	<u>3,473,339</u>	<u>(54,161)</u>
Operating Expenses			
Water Plant Operating Expenses:			
Personnel expenses	189,174	191,086	(1,912)
Direct expenses	837,000	800,568	36,432
Administrative expenses	22,000	28,471	(6,471)
Total Water Plant Operating Expenses	<u>1,048,174</u>	<u>1,020,125</u>	<u>28,049</u>
Wastewater Plant Operating Expenses:			
Personnel expenses	239,611	263,867	(24,256)
Direct expenses	944,500	814,281	130,219
Administrative expenses	67,000	56,661	10,339
Total Wastewater Plant Operating Expenses	<u>1,251,111</u>	<u>1,134,809</u>	<u>116,302</u>
General and Administrative Expenses:			
Personnel expenses	462,717	457,814	4,903
Other	203,500	186,780	16,720
Total General and Administrative Expenses	<u>666,217</u>	<u>644,594</u>	<u>21,623</u>
Total Operating Expenses	<u>2,965,502</u>	<u>2,799,528</u>	<u>165,974</u>
Operating Income Before Depreciation and Amortization	561,998	673,811	111,813
Depreciation and amortization	1,470,000	1,536,420	(66,420)
Operating Loss	<u>(908,002)</u>	<u>(862,609)</u>	<u>45,393</u>
Nonoperating Revenues			
Water tapping fees	179,000	134,200	(44,800)
Sewer tapping fees	170,100	94,500	(75,600)
Interest income	20,000	63,139	43,139
Miscellaneous income	2,500	38,940	36,440
Total Nonoperating Revenues	<u>371,600</u>	<u>330,779</u>	<u>(40,821)</u>
Nonoperating Expenses			
Interest expense	128,809	128,809	-
Miscellaneous expense	4,000	-	4,000
Total Nonoperating Expenses	<u>132,809</u>	<u>128,809</u>	<u>4,000</u>
Net Nonoperating Revenues (Expenses)	<u>238,791</u>	<u>201,970</u>	<u>(36,821)</u>
Loss Before Capital Contributions	<u>\$ (669,211)</u>	<u>\$ (660,639)</u>	<u>\$ 8,572</u>

See independent auditor's report.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
REVENUES AND EXPENSES
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Water revenue	\$ 1,443,000	\$ 1,412,074	\$ (30,926)
Sewer revenue	2,054,000	2,034,275	(19,725)
Connection fees	1,500	-	(1,500)
Administrative fees	8,500	6,799	(1,701)
Construction usage and certificate fees	15,000	13,100	(1,900)
Meter installations	17,000	27,325	10,325
Rental income	26,000	2,214	(23,786)
Miscellaneous operating revenues	5,500	1,700	(3,800)
Total Operating Revenues	<u>3,570,500</u>	<u>3,497,487</u>	<u>(73,013)</u>
Operating Expenses			
Water Plant Operating Expenses:			
Personnel expenses	187,500	163,584	23,916
Direct expenses	842,000	827,440	14,560
Administrative expenses	21,000	22,302	(1,302)
Total Water Plant Operating Expenses	<u>1,050,500</u>	<u>1,013,326</u>	<u>37,174</u>
Wastewater Plant Operating Expenses:			
Personnel expenses	187,500	220,446	(32,946)
Direct expenses	921,000	944,826	(23,826)
Administrative expenses	64,000	53,817	10,183
Total Wastewater Plant Operating Expenses	<u>1,172,500</u>	<u>1,219,089</u>	<u>(46,589)</u>
General and Administrative Expenses:			
Personnel expenses	440,500	430,730	9,770
Other	220,000	246,649	(26,649)
Total General and Administrative Expenses	<u>660,500</u>	<u>677,379</u>	<u>(16,879)</u>
Total Operating Expenses	<u>2,883,500</u>	<u>2,909,794</u>	<u>(26,294)</u>
Operating Income Before Depreciation and Amortization	687,000	587,693	(99,307)
Depreciation and amortization	1,431,000	1,476,674	(45,674)
Operating Loss	<u>(744,000)</u>	<u>(888,981)</u>	<u>(144,981)</u>
Nonoperating Revenues			
Water tapping fees	158,500	144,999	(13,501)
Sewer tapping fees	157,500	138,600	(18,900)
Interest income	20,000	29,574	9,574
Miscellaneous income	5,000	81	(4,919)
Total Nonoperating Revenues	<u>341,000</u>	<u>313,254</u>	<u>(27,746)</u>
Nonoperating Expenses			
Interest expense	135,109	113,721	21,388
Miscellaneous expense	1,000	-	1,000
Total Nonoperating Expenses	<u>136,109</u>	<u>113,721</u>	<u>22,388</u>
Net Nonoperating Revenues (Expenses)	204,891	199,533	(5,358)
Loss Before Capital Contributions	<u>\$ (539,109)</u>	<u>\$ (689,448)</u>	<u>\$ (150,339)</u>

See independent auditor's report.